



CITY OF ECORSE, MICHIGAN

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2004

82-2060

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Ecorse	County Wayne
Audit Date 6/30/04	Opinion Date 2/4/05	Date Accountant Report Submitted to State: 3/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☒ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) WILKERSON & ASSOCIATE, P.C.			
Street Address 21751 W. ELEVEN MILE RD., SUITE 210	City SOUTHFIELD	State MI	ZIP 48075
Accountant Signature <i>Tony Wilkerson</i>		Date 3/31/05	

CITY OF ECORSE, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

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Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

REPORT OF INDEPENDENT AUDITORS

City Council
City of Ecorse, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds, and remaining fund information of the City of Ecorse, Michigan (the "City") as of and for the year ended June 30, 2004, which comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis of our opinion.

The financial statements referred to above include only the primary government of the City of Ecorse, Michigan, which consists of all funds, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the city's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the city's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Ecorse, Michigan as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Ecorse, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members: A.I.C.P.A. and M.A.C.P.A.

City Council
City of Ecorse, Michigan

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2003.

The management's discussion and analysis and budgetary comparison information on pages 3 - 8, and pages 42 - 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wilkerson & Associate P.C.

Wilkerson & Associate, P.C.
Certified Public Accountants

February 4, 2005

Management's Discussion and Analysis

Overview of the Financial Statements

The 2004 annual financial report of the City of Ecorse follows a different format than in years prior to 2003. This annual report reflects changes to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

- Government activities – Most of the City's basic services are included here, such as the police, fire, public works and recreation departments and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.
- Business-type activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer systems are included here.
- Component units – The City, does not include the Ecorse Housing Commission in its report.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

City of Ecorse, Michigan

Management's Discussion and Analysis (Continued)

The City has three kinds of funds:

- Government funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- Proprietary funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provide both short and long-term financial information.
- Fiduciary funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$18,127,446 (net assets), an increase of \$3,096,013 from the previous year. Of the \$18,127,446 reported in net assets, approximately \$6.9 million may be used to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- Net assets of our governmental activities increased \$1,479,208, or 147%, while net assets of our business-type activities increased \$1,950,149 or 14%.
- Unrestricted net assets for governmental activities are -.31% of expenses. Unrestricted net assets for business-type activities are 208.4%.
- The General Fund reported revenues in excess of expenses by \$1,495,441, which increases the Fund balance. However, due to the \$6 million loan the general fund balance has a surplus of \$5,413,563.

The City as a Whole

The City's combined net assets are \$18,127,446 at June 30, 2004. Business type activities make up \$15,642,969 and governmental activities make up \$2,484,477 of the total. Future reports will provide an analysis of comparative data from the statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of activities is not part of the management's discussion and analysis. In a condensed format, the table below shows a comparison of the net assets as of June 30, 2004 to the prior year.

City of Ecorse, Michigan

Management's Discussion and Analysis (Continued)

City of Ecorse – Net Assets

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$18 million (net assets). However, a major portion (54%) of the City's net assets represents its investment in capital assets (e.g. land, roads, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for future spending.

Unrestricted net assets of the City increased from \$6.9 million at June 20, 2003 to \$7.0 million at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Further, the City is able to report positive balances in all three categories of net assets, for the government as a whole.

City of Ecorse - Net Assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current & Other Assets	7.43	6.20	8.54	10.40	15.97	16.60
Capital Assets	2.22	2.10	15.60	13.00	17.82	15.10
Total assets	9.65	8.30	24.14	23.40	33.79	31.70
Liabilities						
Long-term liabilities	6.40	6.30	7.56	8.10	13.96	14.40
Other liabilities	0.77	1.00	0.94	1.50	1.71	2.50
Total liabilities	7.17	7.30	8.50	9.60	15.67	16.90
Net Assets						
Invested in capital assets -						
Net of related debt	2.22	2.10	7.45	4.30	9.67	6.40
Restricted	0.30	0.30	1.18	1.30	1.49	1.60
Unrestricted	(0.04)	(1.40)	7.01	8.20	6.96	6.80
Total net assets	2.48	1.00	15.64	13.80	18.12	14.80

City of Ecorse, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets for 2004:

City of Ecorse - Changes in Net Assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for service	2.04	1.20	4.60	5.22	6.64	6.42
Grants	0.31	0.37	-	-	0.31	0.37
General revenues:						
Property taxes	10.33	6.65	0.78	0.75	11.11	7.40
State-shared revenues	2.60	2.70	-	-	2.60	2.70
Other revenues	0.02	0.18	0.08	0.28	0.10	0.46
Total revenues	15.30	11.10	5.46	6.25	20.76	17.35
Expenses						
General government	5.02	4.29	-	-	5.02	4.29
Judicial	0.48	0.43	-	-	0.48	0.43
Public safety	6.48	5.69	-	-	6.48	5.69
Public works	1.33	1.39	-	-	1.33	1.39
Recreational/cultural	0.21	0.19	-	-	0.21	0.19
Interest on long-term debt	0.23	0.14	-	-	0.23	0.14
Water and sewer	-	-	3.36	3.96	3.36	3.96
Total expenses	13.75	12.13	3.36	3.96	17.11	16.09
Excess (deficiency) before transfers and other financing sources	1.55	(1.03)	2.10	2.29	3.65	1.26
Transfers	0.15	0.11	(0.15)	(0.11)	-	-
Principal paid on bond	(0.22)	-	-	-	(0.22)	-
Changes in net assets	1.48	(0.92)	1.95	2.18	3.43	1.26

Management's Discussion and Analysis (Continued)

Governmental Activities

For the year ended June 30, 2004, revenues for the City's governmental activities totaled \$15.45 million. Property taxes accounted for 67% of total revenue or \$10.3 million. State shared revenues were 17%, or \$2.6 million. There is concern for the future funding level of the state-shared revenues. It should be noted that the city's largest taxpayer also paid a portion of the property taxes due from prior years. This resulted in an operating surplus in the general fund.

Business-type Activities

For the year ended June 30, 2004; revenues for business-type activities were \$5.46 million (net .15 million of transfers). Charges for services were 87% of gross revenue, or \$4.6 million. Property taxes were 14% of gross revenues, or \$.78 million; these property taxes are used to make payments on debt incurred for the sewer system improvements. The City has one business-type activity; the water and sewer system. City experienced an increase in net assets of approximately \$1.95 million from the business-type activities. This increase is due to the fact that the water and sewer system purchased land from National Steel after deducting amount due from delinquent water bills.

Capital Assets and Debt Administration

At the end of fiscal year 2004, the City has \$13.9 million in bonds versus \$14.7 million last year, an decrease of 5%. The debt related to the fiscal stabilization bonds was \$5.8 million. Debt related to the water and sewer system totaling \$8.1 million is recorded as a liability in the business-type activities in the statement of net assets. This debt represents improvements at the Wayne County Wastewater Treatment Plant that were mandated by a federal consent decree.

The City's Funds

The fund financial statements begin on page 11 and provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities such as special property tax millages. The City's major governmental funds for 2004 include the General Fund, the Major and local Street Funds, Drug Enforcement Fund, Library Fund, Community Grant Fund and The Debt Service Fund. The City's governmental funds reported combined fund balance of \$6.9 million for this year, an increase of \$1.5 million over last year which had a \$5.4 million surplus. The general fund increased because of the additional tax payment received from National Steel for prior years tax. The debt service fund for this fiscal year resulted in a \$5,991 surplus. The other funds remain practically the same from prior year.

General Fund Budgetary Highlights

The budget was not revised during the fiscal year. Actual expenses exceed budget by \$3,880,432. However, revenues exceed budget by \$3,688,552. If the city had revised the budget during the fiscal year the actual would not have exceeded the revised budget.

City of Ecorse, Michigan

Management's Discussion and Analysis (Continued)

Current Economic Conditions

The City will maintain positive fund balances in the future. Although it is anticipated that the State – shared Revenue will decrease in the future, this will not result in the city having a deficit fund balance. The city has selected a new engineering firm that will result in a saving of at least \$300,000. In addition the city has taken steps to reduce overtime in fire and police. These steps include hiring part-time policemen and firemen. The city is very aggressive in community development, with several future projects increasing the tax base of the city. Contract negotiations have resulted in a reasonable contract with AFSCME employees.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Controller's at 3869 Jefferson, Ecorse, Michigan.

BASIC FINANCIAL STATEMENTS

CITY OF ECORSE, MICHIGAN
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,897,110	\$ 4,112,674	\$ 11,009,784
Receivables, net	459,286	1,862,288	2,321,574
Receivables from other governments	952,029	-	952,029
Due (to) from other funds	(1,384,264)	1,384,264	-
Prepaid expenses	317,411	-	317,411
Restricted assets:			
Cash and cash equivalents	189,499	1,181,589	1,371,088
Capital assets:			
Land	96,000	2,515,000	2,611,000
Construction in progress	-	57,931	57,931
Buildings, improvements and sewage system	7,256,043	18,083,178	25,339,221
Vehicles, equipment and furniture	1,895,989	727,846	2,623,835
Accumulated depreciation	(7,028,023)	(5,783,142)	(12,811,165)
Total assets	<u>9,651,080</u>	<u>24,141,628</u>	<u>33,792,708</u>
LIABILITIES			
Accounts payable	325,254	349,138	674,392
Accrued wages and benefits	172,995	989	173,984
Other accrued liabilities	37,820	-	37,820
Non-current liabilities:			
Due within one year	225,000	586,797	811,797
Due in more than one year	6,405,534	7,561,735	13,967,269
Total liabilities	<u>7,166,603</u>	<u>8,498,659</u>	<u>15,665,262</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,220,009	7,452,281	9,672,290
Restricted for debt service	306,218	1,181,589	1,487,807
Unrestricted	(41,750)	7,009,099	6,967,349
Total net assets	<u>\$ 2,484,477</u>	<u>\$ 15,642,969</u>	<u>\$ 18,127,446</u>

See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Program Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government and administration	\$ 4,979,541	\$ 1,423,569	\$ -	\$ (3,555,972)	\$ -	\$ (3,555,972)
Judicial	478,425	-	34,406	(444,019)	-	(444,019)
Public safety	6,405,406	44,645	-	(6,360,761)	-	(6,360,761)
Public works	1,331,904	-	255,766	(1,076,138)	-	(1,076,138)
Recreational/ cultural	255,615	-	51,085	(204,530)	-	(204,530)
Other	9,916	-	-	(9,916)	-	(9,916)
Interest on long-term debt	227,335	-	-	(227,335)	-	(227,335)
Total governmental activities	13,688,142	1,468,214	341,257	(11,878,671)	-	(11,878,671)
Business-type activities:						
Water and sewer	3,363,250	4,603,327	-	-	1,240,077	1,240,077
Total government	\$ 17,051,392	\$ 6,071,541	\$ 341,257	(11,878,671)	1,240,077	(10,638,594)
General revenues						
Property taxes				10,331,583	781,663	11,113,246
State-shared revenue				2,598,450	-	2,598,450
Interest income				20,797	37,325	58,122
Miscellaneous				254,801	43,332	298,133
Transfers				152,248	(152,248)	-
Total general revenues and transfers				13,357,879	710,072	14,067,951
Change in net assets				1,479,208	1,950,149	3,429,357
Net assets, July 1, 2003				1,005,269	13,692,820	14,698,089
Net assets, June 30, 2004				\$ 2,484,477	\$ 15,642,969	\$ 18,127,446

See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Debt Service	Non-major Special Revenue Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 6,411,263	\$ 189,499	\$ 485,847	\$ 7,086,609
Receivables - net	459,286	-	-	459,286
Due from other governments	240,865	-	711,164	952,029
Due (to) from other funds, net	(1,375,780)	-	(8,484)	(1,384,264)
Prepaid expenses	162,872	154,539	-	317,411
Total assets	<u><u>\$ 5,898,506</u></u>	<u><u>\$ 344,038</u></u>	<u><u>\$ 1,188,527</u></u>	<u><u>\$ 7,431,071</u></u>
Liabilities				
Accounts payable	312,206	-	13,048	325,254
Accrued wages and benefits	172,717	-	278	172,995
Accrued interest	-	37,820	-	37,820
Total liabilities	484,923	37,820	13,326	536,069
Fund Balances				
Restricted for debt service	-	306,218	-	306,218
Unrestricted	5,413,583	-	1,175,201	6,588,784
Total fund balances	<u><u>5,413,583</u></u>	<u><u>306,218</u></u>	<u><u>1,175,201</u></u>	<u><u>6,895,002</u></u>
Total liabilities and fund balances	<u><u>\$ 5,898,506</u></u>	<u><u>\$ 344,038</u></u>	<u><u>\$ 1,188,527</u></u>	<u><u>\$ 7,431,071</u></u>

See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balance - total governmental funds	\$ 6,895,002
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	2,220,009
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Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet	<u>(6,630,534)</u>
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Net assets of governmental activities	<u><u>\$ 2,484,477</u></u>
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See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Debt Service	Non-major Special Revenue Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 10,267,763	\$ -	\$ 63,820	\$ 10,331,583
State shared revenues	1,960,917	-	637,533	2,598,450
Grants	24,713	-	282,138	306,851
Licenses and permits	313,818	-	-	313,818
Fees and charges	240,801	-	44,645	285,446
Other revenues	1,419,568	-	27,533	1,447,101
Interest income	20,000	774	23	20,797
Total revenues	14,247,580	774	1,055,692	15,304,046
Expenditures				
General government	5,040,640	-	-	5,040,640
Judicial	478,425	-	-	478,425
Public safety	6,450,592	-	46,961	6,497,553
Public works	700,447	-	631,457	1,331,904
Recreational/cultural	82,035	-	124,316	206,351
Other	-	9,916	-	9,916
Debt service - interest paid	-	227,335	-	227,335
Total expenditures	12,752,139	237,251	802,734	13,792,124
Revenues over (under) expenditures	1,495,441	(236,477)	252,958	1,511,922
Other financing sources (uses)				
Principal paid on fiscal stabilization bond	-	(220,000)	-	(220,000)
Transfers to debt service fund	(462,468)	462,468	-	-
Transfers in (out) for administration	85,853	-	(85,853)	-
Transfers in for administration from proprietary fund	152,248	-	-	152,248
Total other financing sources (uses)	(224,367)	242,468	(85,853)	(67,752)
Revenues over (under) expenditures and other financing sources (uses)	1,271,074	5,991	167,105	1,444,170
Fund balances, July 1, 2003	4,142,509	300,227	1,008,096	5,450,832
Fund balances, June 30, 2004	\$ 5,413,583	\$ 306,218	\$ 1,175,201	\$ 6,895,002

See Accompanying Notes to Basic Financial Statements

Net change in fund balances - total governmental funds	\$ 1,444,170
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Governmental funds report capital outlays as expenditures, however, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period

469,416

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds (365,433)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost when first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items

Changes in net assets of governmental activities	\$ 1,479,208
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CITY OF ECORSE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GENERAL FUND
BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts Original and Final	Actual GAAP Basis	Budget Variance Positive (Negative)
Revenues			
Property taxes	\$ 6,881,978	\$ 10,267,763	\$ 3,385,785
State shared revenues	2,070,831	1,960,917	(109,914)
Grants	19,500	24,713	5,213
Licenses and permits	244,600	313,818	69,218
Fees and charges	140,000	240,801	100,801
Other revenues	1,127,119	1,419,568	292,449
Interest income	75,000	20,000	(55,000)
Total revenues	10,559,028	14,247,580	3,688,552
Expenditures			
General government	3,924,990	4,830,163	(905,173)
Judicial	336,336	478,425	(142,089)
Public safety	4,216,466	6,191,654	(1,975,188)
Public works	235,000	700,446	(465,446)
Recreational/cultural	71,830	82,035	(10,205)
Capital outlays	87,085	469,416	(382,331)
Total expenditures	8,871,707	12,752,139	(3,880,432)
Revenues over (under) expenditures	1,687,321	1,495,441	(191,880)
Other financing sources (uses)			
Charter Police/Fire pension judgement	(1,100,000)	-	1,100,000
Stabilization loan	(450,000)	-	450,000
Transfers to debt service fund	-	(462,468)	(462,468)
Transfers in (out) for administration	-	85,853	85,853
Transfers in for administration from proprietary fund	-	152,248	152,248
Total other financing sources (uses)	(1,550,000)	(224,367)	1,325,633
Revenues over (under) expenditures and other financing sources (uses)	137,321	1,271,074	1,133,753
Fund balances, July 1, 2003	4,142,509	4,142,509	-
Fund balances, June 30, 2004	\$ 4,279,830	\$ 5,413,583	\$ 1,133,753

See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND
JUNE 30, 2004

Assets	
Current Assets:	
Cash	\$ 4,112,674
Accounts receivable - trade, net of allowance for doubtful accounts	1,862,288
Due from other funds	<u>1,384,264</u>
Total Current Assets	<u><u>7,359,226</u></u>
Restricted Assets:	
Cash	<u>1,181,589</u>
Noncurrent Assets:	
Capital Assets:	
Land	2,515,000
Construction in progress	57,931
Building and improvements	18,083,178
Machinery and equipment	727,846
Accumulated depreciation	<u>(5,783,142)</u>
Total Capital Assets, net of Accumulated Depreciation	<u>15,600,813</u>
Total Assets	<u><u>\$ 24,141,628</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	\$ 349,138
Accrued wages and benefits	989
Current maturities of long term debt	<u>586,797</u>
Total Current Liabilities	936,924
Noncurrent Liabilities:	
Long-term debt, net of current maturities	<u>7,561,735</u>
Total Liabilities	<u><u>\$ 8,498,659</u></u>
Net Assets	
Invested in capital assets, net of related debt	7,452,281
Restricted for debt service	1,181,589
Unrestricted	<u>7,009,099</u>
Total Net Assets	<u><u>\$ 15,642,969</u></u>

See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
ASSETS - PROPRIETARY FUND - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2004

Operating Revenues:	
Water charges	\$ 2,121,922
Sewer charges	2,415,556
Miscellaneous charges	<u>65,849</u>
Total operating revenues	<u>4,603,327</u>
Operating Expenses:	
Water cost	633,416
Sewer cost	1,106,150
Salaries, payroll taxes and employee benefits	54,140
Supplies, maintenance and utilities	732,777
Other expenses	84,029
Depreciation	<u>565,018</u>
Total operating expenses	<u>3,175,530</u>
Income from operations	<u>1,427,797</u>
Nonoperating revenues (expenses):	
Interest income	37,325
Sales of excess capacity	43,332
Property taxes	781,663
Interest expense	<u>(187,720)</u>
Total Nonoperating revenues (expenses)	674,600
Income before transfers	2,102,397
Transfers to general fund for administration	<u>(152,248)</u>
Change in net assets	1,950,149
Net assets, July 1, 2003 (As originally stated)	14,025,264
Prior period adjustments	<u>(332,444)</u>
Net assets, July 1, 2003 (Restated)	<u>13,692,820</u>
Net assets, June 30, 2004	<u><u>\$ 15,642,969</u></u>

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 5,119,073
Cash payments to suppliers for goods and services	(3,033,704)
Cash payments to employees for services	<u>(54,140)</u>
Net cash provided by operating activities	2,031,229

CASH FLOWS FROM NON-CAPITAL FINANCIAL ACTIVITIES

Repayment of amounts due to/from other funds - net	(144,073)
Prior period adjustment to retained earnings	(332,444)
Transfers to primary government for administration and other	<u>(152,248)</u>
Net cash provided by non-capital financial activities	(628,765)

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	(3,090,406)
Cash received from sale of excess sewer capacity	43,332
Cash received from tax levies	781,663
Principal paid on long-term obligations	(577,718)
Interest paid on long-term obligations	<u>(187,720)</u>
Net cash provided by capital and related financing activities	(3,030,849)

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in reserve funds at Wayne County	199,599
Investment income	<u>37,325</u>
Net cash provided by investing activities	<u>236,924</u>

Increase in cash and cash equivalents	(1,391,461)
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CASH AND CASH EQUIVALENTS AT JULY 1, 2003	<u>5,504,135</u>
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CASH AND CASH EQUIVALENTS AT JUNE 30, 2004	<u><u>\$ 4,112,674</u></u>
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See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2004

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 1,427,797
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	565,018
Changes in current assets and liabilities:	
Decrease in accounts receivable - trade	515,746
Decrease in accounts payable	<u>(477,332)</u>
Total adjustments	<u>603,432</u>
Net cash provided by operating activities	<u><u>\$ 2,031,229</u></u>

See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF NET ASSETS -
FIDUCIARY FUNDS
JUNE 30, 2004

	Police and Fire Pension Trust	Agency Funds
Assets:		
Cash	\$ -	\$ 500,608
Investments	8,735,330	-
Due from other governmental units	-	899,822
Total Assets	<u>\$ 8,735,330</u>	<u>\$ 1,400,430</u>
Liabilities:		
Due to other governmental units	\$ -	\$ 1,140,419
Refundable court bonds	-	114,990
Deposits	-	63,249
Other liabilities	-	81,772
Total Liabilities		<u>\$ 1,400,430</u>
Net Assets:		
Reserved for pension benefits	<u>\$ 8,735,330</u>	

See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
STATEMENT OF CHANGES IN NET ASSETS -
PENSION TRUST FUND
YEAR ENDED JUNE 30, 2004

ADDITIONS

Interest and dividends	\$ 227,001
Net depreciation in market value of investments	511,986
Investment expenses	<u>(117,851)</u>
Net investment income	621,136
Contributions from employer	<u>1,100,000</u>
Total additions	<u>1,721,136</u>

DEDUCTIONS

Benefit payments	1,064,779
Lump-sum distributions	<u>44,924</u>
Total deductions	<u>1,109,703</u>

NET INCREASE	611,433
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NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS

Balance at July 1, 2003	<u>8,123,897</u>
Balance at June 30, 2004	<u><u>\$ 8,735,330</u></u>

See Accompanying Notes to Basic Financial Statements

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ecorse, Michigan, a municipal corporation organized under the laws of the State of Michigan, was incorporated in September 1941. The City has operated under a Mayor-Council form of government and provides the following services as authorized by its Charter: general government, public safety, public works, recreational and cultural, water and sewer services, community development, justice and other.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise fund, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

For the first time financial statements include:

- A Management and Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities, including capital assets.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to implement the general provisions of the Statement in the current year and plans to retroactively report infrastructure (assets acquired prior to July 1, 2002 in the fiscal year ending June 30, 2006).

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity

These financial statements present the City (the primary government). A component unit of the City, the Ecorse Housing Commission, is not included in these statements as required by GASB No. 14. Component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City.

B. Basic Financial Statements – Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, recreation, public works, library and general administrative activities are classified as governmental activities. The City's water and sewer activities are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes unrestricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property taxes, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating grants. Program revenues must be directly associated with the function (police, public works, community services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary grants.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City does not allocate indirect costs. An administrative service fee is charges by the General Fund to the Water Fund, the Major Street Fund, the Local Street Fund and the Community Development Block Grant Fund. These charges are eliminated as reimbursements to recover indirect costs of the General Fund to the other funds.

This government-wide focus is more on the substantiality of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. Basic Financial Statements – Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

1. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- a. General fund** is the general operating account fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special revenue funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Proprietary Fund

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Water and Sewer Fund is the only fund in the City that meets those requirements. This type of fund is also known as an Enterprise Fund. Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) established fees and charges based on a pricing policy designed to recover similar costs.

3. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activity categories. Nonmajor funds by category are summarized into a single column. FASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.), and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principle and interest on general obligation long-term debt, if any, is recognized when due.

E. Financial Statement Amounts

1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments, including pension funds, are stated at fair value, (quoted market price or best available estimate).

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$2,000 and an estimated useful life of 5 years or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation of assets is provided on the straight-line basis over the following estimated useful lives:

Buildings & Improvements	25 - 40 Years
Land Improvements	10 - 20 Years
Machinery & Equipment	5 - 10 Years
Vehicles	5 - 10 Years
Utility Systems	25 - 40 Years
Infrastructure	20 - 40 Years

GASBS No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2006. The City elected to implement the general provisions of GASBS No. 34 in year ending June 30, 2003 and hopes to implement the retroactive infrastructure provisions (under the modified approach) in the fiscal year ending June 30, 2006.

4. Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed in a period prior to the period collected. Revenue is recognized for the period collected. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASBS No. 34 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

5. Expenditures

The measurement focus of government fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

6. Compensated Absences

The City accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

7. Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market value or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

8. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

9. Revenue Concentration

The Great Lakes Works division of United States Steel Corporation provides approximately 50% of the property tax revenue collected by the City. In addition, approximately 54% of the revenues of the Water and Sewer fund are derived from sales to the steel company.

NOTE 2 - BUDGET REQUIREMENTS, ACCOUNTING AND REPORTING

The general government and special revenue funds are under formal budgetary control. In establishing the budgetary data reflected in the financial statements, the City charter requires the following procedures:

1. By February 1 of each year, department heads submit a listing of proposed expenditures to the controller. The controller then prepares a proposed budget for the fiscal year commencing on July 1, and submits it to the City Council. The annual operating budget includes all proposed expenditures and the financing sources which will pay for them.
2. Budgets are prepared on the modified accrual basis, which is the same basis used to reflect actual results.
3. Public hearings to obtain citizen comments are conducted.
4. The budgets are to be adopted by majority vote of the City Council by April 1.
5. Any revisions to the budget must be approved by majority vote of the City Council.

The budget for the general fund was adopted on March 18, 2003. Budgets for special revenue funds were adopted on June 24, 2003. There were no subsequent adjustments, amendments or revisions to those adopted budgets.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3 - CASH AND CASH EQUIVALENTS

The City follows the practice of pooling cash and investment accounts for most funds. Cash, investments, and certificates of deposit for the proprietary fund are segregated. Investments of the Police and Fire Pension fund are held by outside trustees. Cash deposits are collateralized only to the extent of FDIC coverage.

The City's investment policies are governed by state statutes. General City funds must be deposited in government insured accounts in Michigan banks or thrifts. Permissible investments include obligations of the U.S. government and its agencies (either individually or in pooled funds), domestic certificates of deposit, commercial paper with prescribed ratings and repurchase agreements. The term of investments and the financial institutions used for investment purposes are determined based upon operating and other needs. As a matter of City policy, repurchase agreements are not used for investments.

The aggregate cash balances, including restricted cash, at June 30, 2004 have been classified in the following to categories of risk:

	<u>Bank Balances</u>	<u>Book Balances</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured-uncollateralized	<u>10,233,450</u>	<u>10,024,412</u>
Total cash at June 30, 2004	<u><u>\$ 10,333,450</u></u>	<u><u>\$ 10,124,412</u></u>

Investments made by the City's Police and Fire Pension plan are all considered as category 3 – uninsured and unregistered, with securities held by a bank's trust department, and not in the City's name, as follows:

	<u>Cost</u>	<u>Market Value</u>
Money market	\$ 364,113	\$ 364,113
Domestic common stock	4,955,310	5,396,676
U.S. government securities	2,977,844	2,956,453
Accrued interest	<u>18,088</u>	<u>18,088</u>
Total	<u><u>\$ 8,315,355</u></u>	<u><u>\$ 8,735,330</u></u>

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4 - PROPERTY TAXES

The City's property tax is levied each June 1, on the assessed valuation as of December 31 of the preceding year, of property located within the City. Property taxes are for the next fiscal year commencing on July 1. Property taxes are payable without penalty up to each July 31. Assessed values are established annually by the City and are equalized by the Charter County of Wayne and the State of Michigan, subject to certain statutory limits.

The major portion of the City's tax revenue is generated from the summer tax levy and is recognized as revenue in the year received. Real and personal property in the City for the fiscal 2004 levy were equalized at \$247 million. The City's operating tax rates for the June 1, 2003 levy (2004 revenue), along with the related restrictions for its use, follows:

	<u>Operating</u> (in mills)	<u>State Limit</u> (in mills)
General operating	19.00	
Police and Fire pension	.25	
Longevity	.50*	
Library	<u>.25</u>	
	<u>20.00</u>	<u>20.00</u>
 Rubbish collection	 <u>2.30</u>	

- * The Citizens of the City approved a resolution stating that the excess of property tax revenue over the required longevity payments will be used for library operations. In 2004, approximately \$30,000 was used for library operations, which arose from that excess.

In addition to the above property tax millage rates, the City assesses sufficient mills to generate \$1.1 million in additional property taxes for the purpose of paying the judgement levy for funding the Police and Fire Pension Plan contribution. The assessment is divided between the summer and winter tax billings. In the 2004 fiscal year, the City collected approximately \$1,100,000 for the Police and Fire Pension Plan.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended June 30, 2004, were as follows:

Transfers Out	Transfers In			Total
	General Fund	Local Streets Fund	Debt Service Fund	
Major Street Fund	\$ 46,497	\$ 116,243	\$ -	\$ 162,740
Local Street Fund	17,256	-	-	17,256
Community Development Block Grant Fund	22,100	-	-	22,100
Water and Sewer Fund	152,248	-	-	152,248
General Fund	-	-	462,468	462,468
Total	<u>\$ 238,101</u>	<u>\$ 116,243</u>	<u>\$ 462,468</u>	<u>\$ 816,812</u>

Transfers were made for the following purposes:

- To move funds from special revenue funds and the proprietary fund to the general fund to allocate administrative costs (primarily personnel costs) to those funds.
- To reallocate available state revenues between the major and local street funds as allowed by State laws.
- To transfer funds from the general fund for debt service requirements.

Other fund transactions consisted of the collection of property taxes and delinquent water and sewer charges within the current tax collection fund and the subsequent payments for those items to the appropriate fund and the occasional payment made from one fund's cash account for the benefit of another fund.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES (CONTINUED)

Interfund balances at June 30, 2004, were as follows:

	<u>Receivables</u>	<u>Payables</u>
General fund:		
Current tax collection fund	\$ 1,002,900	\$ -
District Court trust fund	19,942	-
Drug forfeiture fund	6,844	-
Water and sewer fund	317,800	139,373
Library fund	14,459	-
Major streets fund:		
Water and sewer fund	25,373	-
Local streets fund:		
Water and sewer fund	-	3,351
Drug forfeiture fund:		
General fund	-	6,844
Current tax collection fund	-	5,005
Library fund:		
General fund	-	14,459
Current tax collection fund	7,422	-
Community Development Block grant fund:		
Water and sewer fund	-	11,620
Water and sewer funds:		
Current tax collection fund	1,573,093	-
General fund	139,373	317,800
Major street fund	-	25,373
Local street fund	3,351	-
Community Development block grant fund	11,620	-
Current tax collection fund:		
General fund	-	1,002,900
Drug forfeiture fund	5,005	-
Library fund	-	7,422
Water and sewer fund	-	1,573,093
District Court Trust fund:		
General fund	-	19,942
Totals	<u>\$ 3,127,182</u>	<u>\$ 3,127,182</u>

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance June 30, 2003	Additions July 1, 2003 - June 30, 2004	Balance June 30, 2004
Governmental activities:			
Capital assets not being depreciated:			
Land	\$ 96,000	\$ -	\$ 96,000
Capital assets being depreciated:			
Buildings	7,092,200	163,843	7,256,043
Vehicles	848,234	81,107	929,341
Equipment	657,356	197,131	854,487
Furniture and fixtures	84,826	27,335	112,161
Total capital assets being depreciated	<u>8,682,616</u>	<u>469,416</u>	<u>9,152,032</u>
Less accumulated depreciation for:			
Buildings	5,794,600	183,143	5,977,743
Vehicles	488,466	76,418	564,884
Equipment	315,258	95,663	410,921
Furniture and fixtures	64,266	10,209	74,475
Total accumulated depreciation	<u>6,662,590</u>	<u>365,433</u>	<u>7,028,023</u>
Total capital assets being Depreciated, net	<u>2,020,026</u>	<u>103,983</u>	<u>2,124,009</u>
Government activities capital assets, Net	<u>\$ 2,116,026</u>	<u>\$ 103,983</u>	<u>\$ 2,220,009</u>
Business-type activities:			
Capital assets not being depreciated:			
Land	\$ 15,000	\$ 2,500,000	\$ 2,515,000
Construction in progress	-	57,931	57,931
Capital assets being depreciated:			
Buildings, improvements, and Sewage system	17,550,703	532,475	18,083,178
Machinery and equipment	727,846	-	727,846
Total capital assets being depreciated	<u>18,278,549</u>	<u>532,475</u>	<u>18,811,024</u>
Less accumulated depreciation for:			
Buildings, improvements, and Sewage system	4,598,661	510,005	5,108,666
Machinery and equipment	619,463	55,013	674,476

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Total accumulated depreciation	5,218,124	565,018	5,783,142
Total capital assets being			
Depreciated, net	13,060,425	(32,543)	13,027,882
Business-type activities capital			
Assets, net	<u>\$ 13,075,425</u>	<u>\$ 2,525,388</u>	<u>\$ 15,600,813</u>

Depreciation expense was charged as a direct expense to programs of the primary government, as follows:

Governmental Activities:

General government and administration	\$ 101,617
Public safety	228,963
Cultural and recreational	<u>34,853</u>
Total depreciation expense-governmental activities	<u>\$ 365,433</u>
Business-type activities - Water and sewer fund	<u>\$ 565,018</u>

NOTE 7 - DEBT AND OTHER OBLIGATIONS

At June 30, 2004, long-term debt consisted of the following:

Governmental Activities:

Fiscal Stabilization Bonds, series 2002, due in annual installments of \$220,000 to \$430,000 through November 2002 with interest at rates varying between 2% and 5%, collateralized by an assignment of State revenue sharing payments	\$ 5,780,000
Compensated absences	485,927
Claims and litigation	364,607

Business-type Activities:

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 7 - DEBT AND OTHER OBLIGATIONS (CONTINUED)

State revolving fund loans, payable to the Charter
County of Wayne, due in annual installments of
\$577,000 to \$825,000 plus interest through
October 2019. These loans are paid in part by a
City levy on County tax rolls

8,148,532

Total long-term debt

14,779,066

Current maturities

811,797

Long-term Debt

\$ 13,967,269

Transactions for the year ended June 30, 2004 are summarized as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Governmental type activities:				
Fiscal stabilization bonds	\$ 6,000,000	\$ -	\$ 220,000	\$ 5,780,000
Compensated absences	373,327	112,600	-	485,927
Claims and litigation	188,261	176,346	-	364,607
Total governmental activities	\$ 6,561,588	\$ 288,946	\$ 220,000	\$ 6,630,534
Business-type activities:				
State revolving fund loans	8,726,250	-	577,718	8,148,532
Total Government	<u>\$ 15,287,838</u>	<u>\$ 288,946</u>	<u>\$ 797,718</u>	<u>\$ 14,779,066</u>

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 7 - DEBT AND OTHER OBLIGATIONS (CONTINUED)

The aggregate annual maturities for each bond-type of debt, are as follows:

Year ending June 30	Governmental Activities			Business-type Activities		
	Principle	Interest	Total	Principal	Interest	Total
2005	\$ 225,000	\$ 224,672	\$ 449,672	\$ 586,797	\$ 175,547	\$ 762,344
2006	230,000	220,122	450,122	606,520	162,726	769,246
2007	235,000	215,120	450,120	610,755	149,642	760,397
2008	240,000	209,178	449,178	631,109	135,895	767,004
2009	245,000	202,263	447,263	640,830	122,556	763,386
Thereafter	4,605,000	1,621,651	6,226,651	5,072,521	481,270	5,553,791
Total	\$ 5,780,000	\$ 2,693,006	\$ 8,473,006	\$ 8,148,532	\$ 1,227,636	\$ 9,376,168

NOTE 8 - PENSION PLANS

Police and Fire Pension – Single-Employer Plan

The City maintains a single-employer pension plan for members of its police and fire departments. This plan is administered by a three member board of trustees, elected by the members of the police department, fire department, and City council (one member appointed by each). This pension fund is reported as a fiduciary fund in the accompanying financial statements.

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after reaching the age of 60 or accumulating 26 years of service. Benefits vest after 10 years of service. Employees, who retire at or after age 60 with 10 or more years of service, are entitled to pension payments for the remainder of their lives, in annual amounts equal to 65% of their highest three consecutive years average compensation.

Pension provisions include deferred allowances whereby an employee may terminate his or her employment with the City after accumulating 20 years of service. If the employee does not withdraw their accumulated contributions, the employee will be entitled to an annual pension, which will be reduced by 2.5% for each year of service less than 26.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8 - PENSION PLANS (CONTINUED)

Pension provisions include death and disability benefits whereby the disabled employee or a surviving spouse will be entitled to receive the full annual normal retirement amount. The disabled employee is entitled to receive disability payments for life, while a surviving spouse may receive death benefits for life, provided the spouse does not remarry.

Funding Policy

The pension plan, which covered all police and fire department personnel prior to 1987, was closed to new hires in 1988. In connection with the 1988 agreement to close this plan, all police and fire personnel hired after January 1, 1980 are members of the Michigan Municipal Employees Retirement System (MMERS). In 1989, the Pension Board and the receiver reached an agreement, which provides that the City will contribute \$1,100,000 annually to the plan until the plan's actuarial liability is liquidated. This contribution is funded by a judgement levy and is payable annually on March 15. If additional funds are required, payment will be made from general governmental funds.

Annual Pension Cost

For the year ended June 30, 2004, the City contributed \$1,100,000 to the plan. Significant actuarial assumptions, used for the year ended June 30, 2004, are as follows:

- Mortality – 1983 Group annuity mortality tables
- Withdrawal from service – None assumed
- Disability – None assumed
- Investment returns – Active and retired lives – 8%
- Salary scale – Salaries assumed to increase each year by 4%, compounded annually
- Retirement Age – For funding, age 50 and 25 years of service
- Valuation method – Projected unit credit method

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8 - PENSION PLANS (CONTINUED)

	<u>Actuarial Valuation as of June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Market value of plan assets	\$8,735,330	\$8,123,897	\$8,021,778
Present value of plan liabilities	<u>10,966,704</u>	<u>10,972,042</u>	<u>11,570,624</u>
Unfunded pension benefits	<u>\$2,231,374</u>	<u>\$2,848,145</u>	<u>\$3,548,846</u>

Michigan Municipal Employee Retirement System (MMERS) – Multi-employer plan

Plan Description

The City is a participant in MMERS to provide retirement benefits to its current and former employees. MMERS was established in 1945 and is organized pursuant to the provisions of Act 427 of the Public Acts of 1984, as amended by 1996 Public Act 220, of the state of Michigan. MMERS is a defined benefit plan provided through an agent multiple-employer public employee retirement system, and covers substantially all City employees. The City joined MMERS in 1980.

MMERS is controlled by the participating organizations and their covered employees, with ultimate control by the Michigan legislature. Benefits are established by state statute. The plan provided pension benefits, deferred allowances, and death and disability benefits to plan members and their beneficiaries. MMERS issues financial statements and required supplementary information for the retirement system. This publicly available report may be obtained by requesting a copy, in writing, from the system at 447 N. Canal Road, Lansing, MI 48917.

Funding policy

The obligation to make contributions and maintain participation in MMERS for its employees was established by negotiation with the City's competitive bargaining units. No contributions to the plan are required from the City's employees.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8 - PENSION PLANS (CONTINUED)

Annual pension cost

For the year ended June 30, 2004, the City's annual pension payments to MMERS of \$766,642 did not meet the required contribution of \$786,585. The annual required contribution was determined as part of an actuarial valuation at December 31, 1999, using the entry age normal cost method. Significant actuarial assumptions included a) and 8% investment rate of return, b) projected salary increases of 4.5% per year, c) assumed rates of withdrawal applied, are based upon years of service for members with less than 5 years of service, and are based upon age for members with over 5 years of service, and d) an inflation component of 4.5% is assumed.

The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by a level percentage of payroll contributions over a period ranging from 30 to 36 years.

Three year trend information follows:

	<u>Fiscal years ended June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Required Annual Pension Contribution	\$766,642	\$697,189	\$697,142
Percentage contributed	97%	88%	84%

Deferred Compensation Plan

The City offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan is available to all City employees and permits them to defer a portion of their salary until future years. Payments made to the plan are not available to employees until termination, retirement, death or unforeseen emergency. The city has no liability for losses under the plan agreement, but does have the duty of due care that would be required of an ordinary prudent investor.

CITY OF ECORSE, MICHIGAN
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 9 - POST EMPLOYMENT HEALTHCARE BENEFITS

In accordance with union contracts, healthcare benefits are paid for covered employees. The insurance premium cost of this benefit is paid 100% by the City. The City records the expense for this benefit at the time the premium is paid.

NOTE 10 - PRIOR PERIOD ADJUSTMENTS

It was determined by the City that two prior year receivables in the amounts \$283,816 and \$48,218 respectively were deemed uncollectible as of June 30, 2004. As a result the amounts totaling \$332,444 have been recorded as prior period adjustments in the Statement of Revenue, Expenditures and Changes in Net Assets – Proprietary Fund – Water and Sewer Fund for the year ended June 30, 2004.

NOTE 11 - NET RECEIVABLES

This balance represents amounts due for an insurance recovery of \$278,463 and other amounts primarily from customers of the City for water, sewer and taxes of \$180,823. These amounts total \$459,286 as of June 30, 2004.

NOTE 12 - RECEIVABLES FROM OTHER GOVERNMENTS

This balance represents amounts due primarily from the State of Michigan and Wayne County for amounts collected by these entities which have not yet been received by the City of Ecorse. These amounts total \$952,029 as of June 30, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

Special Revenue and Debt Service Funds

Non-major Governmental Funds

Special Revenue Funds

Major Streets Fund – This fund is used to account for monies received from the State of Michigan under Act 51 (state gasoline tax revenues), and is used for the maintenance of designated streets within the City.

Local Streets Fund – This fund also accounts for Act 51 monies received, and is used for all city streets, not designated as major.

Drug Enforcement Fund – This fund is used to hold monies received from the forfeiture and confiscation of funds seized by the police department in enforcing drug statutes. Use of these funds are restricted to specified uses by the police department.

Library Fund – This fund is used to account for the revenues received and expenses incurred for the operation of the public library.

Community Development Block Grant Fund – This fund is used to account for the revenues and expenditures of funds received through the community development block grant.

Debt Service Funds

Fiscal Stabilization Bond Fund – This fund is used to account for monies to be applied to retire the fiscal stabilization bonds.

CITY OF ECORSE, MICHIGAN
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	Special Revenue Funds					Community Development Block Grant Fund	Special Revenue Funds Totals	Debt Service	
	Major Street Fund	Local Street Fund	Drug Enforcement Fund	Library Fund	Fiscal Stabilization Bond Fund			Totals	
Assets									
Cash	\$ 299,531	\$ 224,019	\$ 10,724	\$ 8,605	\$ (57,032)	\$ 485,847	\$ 189,499	\$ 675,346	
Due from other governments	483,769	103,016	-	-	124,379	711,164	-	711,164	
Bond issuance costs, net	-	-	-	-	-	-	154,539	154,539	
Inter-fund balances	25,373	-	-	7,422	-	32,795	-	32,795	
Total assets	\$ 808,673	\$ 327,035	\$ 10,724	\$ 16,027	\$ 67,347	\$ 1,229,806	\$ 344,038	\$ 1,573,844	
Liabilities									
Accounts payable	\$ -	\$ -	\$ -	\$ 13,038	\$ 10	\$ 13,048	\$ -	\$ 13,048	
Accrued interest	-	-	-	-	-	-	37,820	37,820	
Accrued salaries	-	-	-	278	-	278	-	278	
Inter-fund balances	-	3,351	11,849	14,459	11,620	41,279	-	41,279	
Total liabilities	-	3,351	11,849	27,775	11,630	54,605	37,820	92,425	
Fund Balances									
Reserved for debt service	-	-	-	-	-	-	306,218	306,218	
Unreserved	808,673	323,684	(1,125)	(11,748)	55,717	1,175,201	-	1,175,201	
Total liabilities and fund balances	\$ 808,673	\$ 327,035	\$ 10,724	\$ 16,027	\$ 67,347	\$ 1,229,806	\$ 344,038	\$ 1,573,844	

CITY OF ECORSE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	Special Revenue				Community		Special		Debt Service	
	Drug		Enforcement		Library	Block Grant	Revenue	Funds	Stabilization	Bond
	Major Street	Local Street	Fund	Fund						
Revenues	Fund	Fund	Fund	Fund	Fund	Fund	Totals	Totals	Fund	Totals
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 63,820	\$ -	\$ 63,820	\$ -	\$ -	\$ 63,820
State shared revenue	464,973	172,560	-	-	-	-	637,533	-	-	637,533
Grants	-	-	-	-	-	282,138	282,138	-	-	282,138
Fines and forfeits	-	-	-	44,645	-	-	44,645	-	-	44,645
Miscellaneous	-	-	-	-	-	27,533	27,533	-	-	27,533
Interest	-	-	23	-	-	-	23	774	-	797
Total revenues	464,973	172,560	44,668	63,820	63,820	309,671	1,055,692	774	-	1,056,466
Expenditures										
Public safety	-	-	46,961	-	-	-	46,961	-	-	46,961
Public works	125,715	213,340	-	-	-	292,402	631,457	-	-	631,457
Recreational/cultural	-	-	-	97,944	-	26,372	124,316	-	-	124,316
Debt service	-	-	-	-	-	-	-	237,251	-	237,251
Total expenditures	125,715	213,340	46,961	97,944	97,944	318,774	802,734	237,251	-	1,039,985
Revenues over (under) expenditures	339,258	(40,780)	(2,293)	(34,124)	(34,124)	(9,103)	252,958	(236,477)	-	16,481
Other financing sources (uses):										
Principal paid on fiscal stabilization bond	-	-	-	-	-	-	-	(220,000)	-	(220,000)
Transfers from Major Street fund to										
Local Street fund	(116,243)	116,243	-	-	-	-	-	-	-	-
Transfers to General fund for administration	(46,497)	(17,256)	-	-	-	(22,100)	(85,853)	-	-	(85,853)
Transfers (to) from General fund - net	-	-	-	-	-	-	-	462,468	-	462,468
Total other financing sources (uses)	(162,740)	98,987	-	-	-	(22,100)	(85,853)	242,468	-	156,615
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	176,518	58,207	(2,293)	(34,124)	(34,124)	(31,203)	167,105	5,991	-	173,096
Fund Balances, July 1, 2003	632,155	265,477	1,168	22,376	22,376	86,920	1,008,096	300,227	-	1,308,323
Fund Balances, June 30, 2004	\$ 808,673	\$ 323,685	\$ (1,125)	\$ (11,748)	\$ (11,748)	\$ 55,717	\$ 1,175,201	\$ 306,218	\$ -	\$ 1,481,419

CITY OF ECORSE, MICHIGAN
SPECIAL REVENUE FUND - MAJOR STREETS FUND
BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE ACTUAL TOTALS FOR 2003

	2004		Budget Variance	2003
	Budgeted Amounts Original and Final	Actual GAAP Basis	Positive (Negative)	Actual GAAP Basis
Revenues:				
State-shared revenue	\$ 340,000	\$ 464,973	\$ 124,973	\$ 430,950
Interest	5,000	-	(5,000)	-
Total revenues	345,000	464,973	119,973	430,950
Expenditure:				
Construction - Roads	15,000	-	15,000	7,365
Maintenance:				
Contracted services	175,000	118,182	56,818	242,668
Routine maintenance	25,000	-	25,000	43,386
Traffic services	22,000	7,533	14,467	33,028
Winter maintenance	45,000	-	45,000	29,387
Equipment rental administration	45,000	-	45,000	
Total expenditures	327,000	125,715	201,285	355,834
Excess revenues over expenditures	18,000	339,258	321,258	75,116
Other financing uses:				
Transfers to Local Street Fund	-	116,243	(116,243)	107,737
Transfers to General Fund - Administration	-	46,497	(46,497)	43,095
Total other financing uses	-	162,740	(162,740)	150,832
Excess (deficiency) of revenues over expenditures and other financing uses	18,000	176,518	158,518	(75,716)
Fund balance, beginning of year	725,871	632,155	(93,716)	707,871
Fund balance, end of year	\$ 743,871	\$ 808,673	\$ 64,802	\$ 632,155

CITY OF ECORSE, MICHIGAN
SPECIAL REVENUE FUND - LOCAL STREETS FUND
BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE ACTUAL TOTALS FOR 2003

	2004		Budget Variance	2003
	Budgeted Amounts Original and Final	Actual GAAP Basis	Positive (Negative)	Actual GAAP Basis
Revenues:				
State-shared revenue	\$ 155,000	\$ 172,560	\$ 17,560	\$ 159,702
Interest	2,000	-	(2,000)	-
Total revenues	157,000	172,560	15,560	159,702
Expenditure:				
Construction - Professional services	30,000	30,323	(323)	
Maintenance:				
Contracted services	7,000	35,754	(28,754)	45,502
Routine maintenance	45,000	90,856	(45,856)	68,914
Traffic services	6,000	24,722	(18,722)	35,160
Winter maintenance	55,000	31,685	23,315	26,037
Alley maintenance	22,000	-	22,000	-
Equipment rental administration	15,000	-	15,000	-
Total expenditures	180,000	213,340	(33,340)	175,613
Excess revenues over expenditures	(23,000)	(40,780)	(17,780)	(15,911)
Other financing uses:				
Transfers to Major Street Fund	-	116,243	116,243	107,737
Transfers to from General Fund - Administration	25,000	(17,256)	(42,256)	(15,970)
Total other financing uses	25,000	98,987	73,987	91,767
Excess (deficiency) of revenues over expenditures and other financing (uses)	2,000	58,207	56,207	75,856
Fund balance, beginning of year	191,621	265,477	73,856	189,621
Fund balance, end of year	\$ 193,621	\$ 323,684	\$ 130,063	\$ 265,477

CITY OF ECORSE, MICHIGAN
SPECIAL REVENUE FUND - DRUG ENFORCEMENT FUND
BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE ACTUAL TOTALS FOR 2003

	2004		Budget Variance Positive (Negative)	2003 Actual GAAP Basis
	Budgeted Amounts Original and Final	Actual GAAP Basis		
Revenues:				
Fines and forfeits	\$ 55,000	\$ 44,645	\$ (10,355)	\$ 50,037
Interest	-	23	23	921
Total revenues	55,000	44,668	(10,332)	50,958
Expenditure:				
Police operating expenses	50,000	46,961	3,039	63,246
Capital equipment purchases	-	-	-	88,686
Total expenditures	50,000	46,961	3,039	151,932
Excess revenues over expenditures	5,000	(2,293)	(7,293)	(100,974)
Fund balance, beginning of year	102,142	1,168	(100,974)	102,142
Fund balance, end of year	\$ 107,142	\$ (1,125)	\$ (108,267)	\$ 1,168

CITY OF ECORSE, MICHIGAN
SPECIAL REVENUE FUND - LIBRARY FUND
BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE ACTUAL TOTALS FOR 2003

	2004		Budget Variance	2003
	Budgeted Amounts Original and Final	Actual GAAP Basis	Positive (Negative)	Actual GAAP Basis
Revenues:				
Property taxes	\$ 145,000	\$ 63,820	\$ (81,180)	\$ 63,964
Total revenues	145,000	63,820	(81,180)	63,964
Expenditure:				
Salaries and payroll taxes	7,000	27,497	(20,497)	8,904
Wayne County library network	130,000	68,196	61,804	70,886
Supplies	5,000	-	5,000	-
Building maintenance	3,000	2,251	749	520
Total expenditures	145,000	97,944	47,056	80,310
Excess revenues over expenditures	-	(34,124)	(34,124)	(16,346)
Fund balance, beginning of year	38,722	22,376	(16,346)	38,722
Fund balance, end of year	\$ 38,722	\$ (11,748)	\$ (50,470)	\$ 22,376

CITY OF ECORSE, MICHIGAN
SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT BLOCK GRANT FUND
BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE ACTUAL TOTALS FOR 2003

	2004		Budget Variance	2003
	Budgeted Amounts	Actual GAAP	Positive	Actual
	Original and Final	Basis	(Negative)	GAAP Basis
Revenues:				
Federal grants	\$ 199,000	\$ 282,138	\$ 83,138	\$ 288,556
Program income	-	27,533	27,533	19,444
Total revenues	199,000	309,671	110,671	308,000
Expenditure:				
Parks and playgrounds	80,000	26,372	53,628	9,809
Street improvements	100,000	138,796	(38,796)	174,113
Consultant fees	-	9,837	(9,837)	25,000
Housing rehabilitation	-	99,827	(99,827)	48,518
Building demolition	-	8,510	(8,510)	8,540
Building improvements	-	35,000	(35,000)	-
Miscellaneous	-	432	(432)	162
Total expenditures	180,000	318,774	(138,774)	266,142
Excess revenues over expenditures	19,000	(9,103)	(28,103)	41,858
Other financing uses:				
Transfers to from General Fund - Administration	19,000	22,100	3,100	22,100
Total other financing uses	19,000	22,100	3,100	22,100
Excess (deficiency) of revenues over expenditures and other financing (uses)	-	(31,203)	(25,003)	19,758
Fund balance, beginning of year	67,162	86,920	19,758	67,162
Fund balance, end of year	\$ 67,162	\$ 55,717	\$ (5,245)	\$ 86,920

CITY OF ECORSE, MICHIGAN
DEBT SERVICE FUND - FISCAL STABILIZATION BOND FUND
BUDGETED AND ACTUAL REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2004

	2004		Budget Variance
	Budgeted Amounts Original and Final *	Actual GAAP Basis	Positive (Negative)
Revenues:			
Interest	\$ -	\$ 774	\$ 774
Total revenues	-	774	774
Expenditure:			
Interest expense and bond payment	-	227,335	(227,335)
Amortization of bond issue costs	-	8,916	(8,916)
Trustee fees	-	1,000	(1,000)
Total expenditures	-	237,251	(237,251)
Excess revenues over expenditures	-	(236,477)	(236,477)
Other Financing Uses:			
Principal paid on fiscal stabilization bond	-	(220,000)	(220,000)
Transfers from General Fund - net	-	462,468	462,468
Total other financing uses	-	242,468	242,468
Excess (deficiency) of revenues over expenditures and other financing uses		5,991	5,991
Fund balance, beginning of year	-	300,227	300,227
Fund balance, end of year	\$ -	\$ 306,218	\$ 306,218

* No budget for this fund was adopted

CITY OF ECORSE, MICHIGAN
COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2004

	Police and Fire Pension Trust	Current Tax Collection Fund	Fire Insurance Escrow Fund	District Court Trust Fund	Totals
Assets:					
Cash	\$ -	\$ 240,597	\$ 63,249	\$ 196,762	\$ 500,608
Investments	8,735,330	-	-	-	-
Due from other governmental units	-	899,822	-	-	899,822
Total Assets	\$ 8,735,330	\$ 1,140,419	\$ 63,249	\$ 196,762	\$ 1,400,430
Liabilities:					
Due to other governmental units		\$ 1,140,419	-	-	\$ 1,140,419
Refundable court bonds		-	-	114,990	114,990
Deposits		-	63,249	-	63,249
Other liabilities		-	-	81,772	81,772
Total Liabilities		1,140,419	63,249	196,762	1,400,430

Net Assets:

Reserved for pension benefits \$ 8,735,330

CITY OF ECORSE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GENERAL FUND
BUDGET TO ACTUAL
YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE ACTUAL TOTALS FOR 2003

	2004		Budget Variance	2003
	Budgeted Amounts Original and Final	Actual GAAP Basis	Positive (Negative)	Actual GAAP Basis
Revenues:				
Property taxes	\$ 6,881,978	\$ 10,267,763	\$ 3,385,785	\$ 6,594,278
State shared revenues	2,070,831	1,960,917	(109,914)	2,089,748
Grants	19,500	24,713	5,213	82,033
Licenses and permits	244,600	313,818	69,218	207,844
Fees and charges	140,000	240,801	100,801	946,886
Other revenues	1,127,119	1,419,568	292,449	162,572
Interest income	75,000	20,000	(55,000)	21,707
Total revenues	<u>10,559,028</u>	<u>14,247,580</u>	<u>3,688,552</u>	<u>10,105,068</u>
Expenditure:				
General government	3,924,990	4,830,163	(905,173)	4,083,545
Judicial	336,336	478,425	(142,089)	428,139
Public safety	4,216,466	6,191,654	(1,975,188)	5,525,637
Public works	235,000	700,446	(465,446)	341,139
Recreational/cultural	71,830	82,035	(10,205)	66,738
Capital outlays	87,085	469,416	(382,331)	135,383
Total expenditures	<u>8,871,707</u>	<u>12,752,139</u>	<u>(3,880,432)</u>	<u>10,580,581</u>
Excess revenues over expenditures	1,687,321	1,495,441	(191,880)	(475,513)
Other financing sources (uses)				
Charter Police/Fire pension judgement	(1,100,000)	-	1,100,000	-
Stabilization loan	(450,000)	-	450,000	-
Net proceeds from fiscal stabilization bond	-	-	-	5,825,294
Transfers to debt service fund	-	(462,468)	(462,468)	(286,215)
Transfers in (out) for administration	-	85,853	85,853	81,165
Transfers in for administration from proprietary fund	-	152,248	152,248	113,345
Property tax refund	-	-	-	-
Total other financing sources (uses)	<u>(1,550,000)</u>	<u>(224,367)</u>	<u>1,325,633</u>	<u>5,733,589</u>
Revenues over (under) expenditures and financing sources (uses)	137,321	1,271,074	1,133,753	5,258,076
Fund balances, July 1, 2003	<u>4,142,509</u>	<u>4,142,509</u>	<u>-</u>	<u>(1,115,567)</u>
Fund balances, June 30, 2004	<u>\$ 4,279,830</u>	<u>\$ 5,413,583</u>	<u>\$ 1,133,753</u>	<u>\$ 4,142,509</u>

Budgeted amounts are prepared on a GAAP basis

CITY OF ECORSE, MICHIGAN
SCHEDULE OF REVENUES - BUDGET TO ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Property Taxes:			
Property Tax Revenues	\$ 6,647,978	\$ 7,755,893	\$ 1,107,915
Payment in Lieu of Taxes	24,000	-	(24,000)
Praxair IFT Payment	210,000	17,237	(192,763)
National Steel Tax Settlement	-	2,494,633	2,494,633
	<u>6,881,978</u>	<u>10,267,763</u>	<u>3,385,785</u>
Licenses and Permits:			
Cable TV Fees	89,300	81,879	(7,421)
Trailer Licenses	1,000	877	(123)
Various Business Licenses	32,000	68,856	36,856
Plumbing License Permit	40,000	23,038	(16,962)
Electric License Permit	23,000	21,127	(1,873)
Building Permits	58,000	115,551	57,551
Building Inspections	1,300	2,190	890
Miscellaneous License	-	300	300
	<u>244,600</u>	<u>313,818</u>	<u>69,218</u>
State and Federal:			
Detroit Area Agency on Aging and SMART Grants	19,500	24,713	5,213
State-Shared Revenue/Sales Tax	2,070,831	1,960,917	(109,914)
	<u>2,090,331</u>	<u>1,985,630</u>	<u>(104,701)</u>
Fees and Charges:			
Miscellaneous Fees	20,000	18,053	(1,947)
Resale of City Property	5,000	10,000	5,000
Towing Revenue	15,000	22,706	7,706
District Court Revenues	700,000	868,125	168,125
Ambulance Fees	100,000	190,042	90,042
	<u>840,000</u>	<u>1,108,926</u>	<u>268,926</u>
Other Revenue:			
Reimbursement for Judge's Salary	45,725	34,406	(11,319)
Interest Income	75,000	20,000	(55,000)
Rental Income - Ameritech	6,500	825	(5,675)
Workers' Compensation Rebate	-	-	-
Workers' Compensation Recovery	-	-	-
Miscellaneous Reimbursements	165,894	138,250	(27,644)
Other Revenues and Reimbursements	200,000	370,032	170,032
Liquor Tax Reimbursements	9,000	7,930	(1,070)
Great Lakes Steel - Community Grant	-	-	-
	<u>502,119</u>	<u>571,443</u>	<u>69,324</u>
 TOTAL REVENUES	 <u>\$ 10,559,028</u>	 <u>\$ 14,247,580</u>	 <u>\$ 3,688,552</u>

CITY OF ECORSE, MICHIGAN
SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Legislative:			
Salaries	\$ -	\$ -	\$ -
Salaries - Mayor and Council	39,000	75,938	(36,938)
FICA	4,403	4,894	(491)
Seminars/Workshops	3,000	-	3,000
Pension	-	-	-
Travel	500	-	500
Office Supplies	800	2,500	(1,700)
Attorney's Fees	500	-	500
Miscellaneous	-	12,957	(12,957)
	<u>48,203</u>	<u>96,290</u>	<u>(48,087)</u>
Judicial:			
Salaries	173,000	253,758	(80,758)
FICA	12,836	16,078	(3,242)
Health Insurance	53,000	82,802	(29,802)
Pension	70,000	93,425	(23,425)
Office Supplies	14,000	7,340	6,660
Books and Subscriptions	1,500	742	758
Contractual services/Probation	10,000	12,791	(2,791)
Witness Fees	1,000	-	1,000
Miscellaneous	1,000	11,490	(10,490)
	<u>336,336</u>	<u>478,425</u>	<u>(142,089)</u>
General Government:			
Elections:			
Supplies and Equipment	7,800	7,963	(163)
Contractual Workers	19,000	19,804	(804)
	<u>26,800</u>	<u>27,767</u>	<u>(967)</u>
Assessor:			
Salaries	30,700	36,353	(5,653)
Salaries - Assessor	4,000	-	4,000
Overtime	200	-	200
FICA	2,600	2,867	(267)
Health Insurance	3,200	6,900	(3,700)
Pension	10,000	17,226	(7,226)
Seminars/Workshops	750	-	750
Office Supplies	1,000	14,684	(13,684)
Wayne County Admin.	40,000	-	40,000
	<u>92,450</u>	<u>78,030</u>	<u>14,420</u>
City Clerk:			
Salaries	55,000	86,981	(31,981)
Salaries - Clerk	10,000	-	10,000
Overtime	2,000	-	2,000
FICA	4,500	6,866	(2,366)
Health Insurance	14,500	27,601	(13,101)
Pension	18,500	31,990	(13,490)

CITY OF ECORSE, MICHIGAN
SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Seminars/Workshops	1,500	-	1,500
Office Supplies	-	3,306	(3,306)
Postage	9,700	25,693	(15,993)
Miscellaneous	-	1,686	(1,686)
Department Supplies	4,500	3,982	518
	<u>120,200</u>	<u>188,104</u>	<u>(67,904)</u>
Controller:			
Salaries	175,000	208,362	(33,362)
Overtime	1,000	-	1,000
FICA	11,322	15,351	(4,029)
Health Insurance	15,000	34,501	(19,501)
Pension	10,000	35,379	(25,379)
Workers' Compensation	-	-	-
Office Supplies	8,000	2,980	5,020
Workshops/Travel	1,500	120	1,380
Contracted Services	45,000	-	45,000
	<u>266,822</u>	<u>296,693</u>	<u>(29,871)</u>
Auditors:	<u>60,000</u>	<u>130,881</u>	<u>(70,881)</u>
Treasurer:			
Salaries	57,500	88,762	(31,262)
Salaries - Treasurer	7,000	-	7,000
Overtime	2,000	1,958	42
FICA	5,415	6,691	(1,276)
Health Insurance	11,900	13,800	(1,900)
Pension	24,300	35,368	(11,068)
Office Supplies	2,000	1,876	124
Computer Expense	-	1,927	(1,927)
Seminars/Workshops	1,500	-	1,500
Consulting Services	15,000	1,202	13,798
	<u>126,615</u>	<u>151,583</u>	<u>(24,968)</u>
General Government:			
Long-term Disability	13,500	2,460	11,040
Pension	-	2,447	(2,447)
Unemployment Compensation	11,600	209	11,391
Workers Compensation	20,000	70,703	(50,703)
Office Supplies	-	13,100	(13,100)
Postage	7,500	7,324	176
Downriver Mutual Aid	10,000	4,750	5,250
Michigan Municipal League	8,000	8,255	(255)
Attorney Fees	209,000	241,059	(32,059)
Arbitration and Lawsuit Settlements	3,000	412,410	(409,410)
Consultants Fees	50,000	12,574	37,426
Physicals: All Departments	2,000	-	2,000
Retirees Health Insurance	1,200,000	1,180,952	19,048
Retirees Death Benefits	10,000	5,000	5,000

CITY OF ECORSE, MICHIGAN
SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Garbage Disposal	300,000	337,421	(37,421)
Riverview Dumping	120,000	135,043	(15,043)
Telephone	45,000	67,783	(22,783)
Water Festival and July 4th Celebration	12,000	8,690	3,310
General Liability Insurance	400,000	412,770	(12,770)
Newspaper Ads	5,000	20,116	(15,116)
Emergency Preparedness	310,000	18,223	291,777
Lighting: Streets	120,000	321,227	(201,227)
Lighting: Facilities	25,000	104,054	(79,054)
Gas Utilities	3,800	30,913	(27,113)
Office Machine Maintenance	220,000	4,242	215,758
All Building Maintenance	40,000	322,645	(282,645)
Computer Expenses	11,000	79,847	(68,847)
Xerox Machine and Paper	-	-	-
Equipment Rental	-	9,877	(9,877)
Miscellaneous	27,500	26,721	779
	<u>3,183,900</u>	<u>3,860,815</u>	<u>(676,915)</u>
Total General Government	<u>3,876,787</u>	<u>4,733,873</u>	<u>(857,087)</u>
Public Safety:			
Police Department:			
Salaries	1,563,118	1,603,905	(40,787)
Overtime	100,000	263,389	(163,389)
Act 312 Settlement - Back Pay	15,000	-	15,000
FICA	28,130	26,293	1,837
Health Insurance	220,000	345,007	(125,007)
Workers Compensation	50,000	-	50,000
Charter Pension	-	777,201	(777,201)
MERS Pension	320,000	369,169	(49,169)
Office Supplies	10,000	28,622	(18,622)
Ammunition	700	480	220
Prisoners' Meals and Holding	155,000	151,050	3,950
Downriver Mutual Aid	8,000	5,402	2,598
Police Training (Act 302)	50,000	12,069	37,931
Vehicle Expense: Repairs & Maintenance	16,000	61,522	(45,522)
Vehicle Expense: Gas, Oil, and Lube	14,000	34,963	(20,963)
Radio Maintenance	2,000	10,591	(8,591)
Dogcatcher Expense	20,000	-	20,000
Special Police Dept Audit	-	29,867	(29,867)
Miscellaneous	8,000	58,753	(50,753)
	<u>2,579,948</u>	<u>3,778,282</u>	<u>(1,198,334)</u>
Fire Department:			
Salaries	949,098	1,140,582	(191,484)
Overtime	20,000	98,787	(78,787)

CITY OF ECORSE, MICHIGAN
SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
FICA	17,150	28,310	(11,160)
Health Insurance	113,050	158,778	(45,728)
Workers Compensation	35,000	-	35,000
Charter Pension	-	455,719	(455,719)
MERS Pension	160,425	177,042	(16,617)
Office Supplies	2,500	2,031	469
Departmental Supplies	16,500	32,375	(15,875)
Laundry	2,000	158	1,842
Training	1,000	-	1,000
Various Maintenance	3,000	175	2,825
Ambulance	-	18,517	(18,517)
Vehicle Expense: Repairs & Maintenance	15,000	16,333	(1,333)
Vehicle Expense: Gas, Oil, and Lube	8,400	6,090	2,310
Sundry & Other	7,000	33,248	(26,248)
	<u>1,350,123</u>	<u>2,168,144</u>	<u>(818,021)</u>
Building, Engineering and Inspections:			
Salaries	71,500	68,970	2,530
Overtime	500	330	170
FICA	5,335	5,500	(165)
Health Insurance	14,450	20,700	(6,250)
Pension	31,110	28,987	2,123
Office Supplies	2,000	1,309	691
Inspector's Fees	18,000	-	18,000
Seminars/Workshops	1,500	-	1,500
Computer Expense	5,000	-	5,000
Professional/Contractual Service	135,000	117,157	17,843
Miscellaneous	2,000	2,275	(275)
	<u>286,395</u>	<u>245,228</u>	<u>41,167</u>
Subtotal Public Safety	<u>4,216,466</u>	<u>6,191,654</u>	<u>(1,975,188)</u>
Capital Outlay-Equipment-Assessor's	-	-	-
Capital Outlay-Equipment-Controller's	3,000	-	3,000
Capital Outlay-Equipment-Treasurer's	4,085	-	4,085
Capital Outlay-Equipment-General	40,000	210,478	(170,478)
Capital Outlay-Equipment-Police	20,000	173,341	(153,341)
Capital Outlay-Equipment-Fire	20,000	85,597	(65,597)
	<u>87,085</u>	<u>469,416</u>	<u>(382,331)</u>
Public Works:			
Salaries	-	64,934	(64,934)
FICA	-	4,968	(4,968)
Health Insurance	-	1,905	(1,905)
Pension	-	15,178	(15,178)
Contracted Service: General Labor	50,000	158,295	(108,295)
Contracted Service: Park Maintenance	50,000	61,339	(11,339)
Contracted Service: Rubbish Removal	135,000	362,836	(227,836)
Contracted Service: Miscellaneous	-	30,992	(30,992)
	<u>235,000</u>	<u>700,446</u>	<u>(465,446)</u>

CITY OF ECORSE, MICHIGAN
SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2004

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Senior Citizens			
Salaries	37,500	42,865	(5,365)
FICA	2,680	2,712	(32)
Vehicle Repairs and Maintenance	1,900	13,947	(12,047)
	<u>42,080</u>	<u>59,525</u>	<u>(17,444)</u>
Recreation:			
Director's Salary	5,000	13,199	(8,199)
FICA	300	1,115	(815)
Recreation Expense	24,450	8,197	16,253
	<u>29,750</u>	<u>22,511</u>	<u>7,239</u>
 TOTAL EXPENDITURES	 <u>\$ 8,871,707</u>	 <u>\$ 12,752,139</u>	 <u>\$ (3,880,433)</u>

CITY OF ECORSE, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - PENSION PLANS

The following presents the funding progress for the City's pension plans:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
Police and Fire Pension Trust:						
6/30/04	\$ 8,735,330	\$ 10,966,704	80%	\$ 2,231,374	\$ 151,983	1468%
6/30/03	8,123,987	10,972,042	74%	2,848,055	206,173	1381%
6/30/02	8,021,778	11,570,624	69%	3,548,846	266,489	1332%
Michigan Municipal Employees Retirement System:						
6/30/04	\$ 15,060,268	\$ 27,971,284	54%	\$ 12,911,016	\$ 2,894,691	446%
6/30/03	14,938,096	27,428,911	54%	12,490,815	2,601,910	480%
6/30/02	15,661,860	27,539,954	57%	11,878,094	2,734,478	434%

CITY OF ECORSE, MICHIGAN

MANAGEMENT LETTER

JUNE 30, 2004

Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

21751 W. ELEVEN MILE RD., STE 210
SOUTHFIELD, MICHIGAN 48076
248 213 1340 FAX 248 213 1344

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

February 4, 2005

Mayor and City Council
City of Ecorse, Michigan

In planning and performing our audit of the governmental financial statements of the City of Ecorse for the year ended June 30, 2004, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Ecorse's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions in this letter that we believe to be material weaknesses.

We have also included other general observations and comments which are not considered to be material weaknesses. We have also included numerous recommendations related to our comments included in this letter.

Members: A.I.C.P.A. and M.A.C.P.A.

This report is intended solely for the information and use of Mayor, City Council, and Management of the City of Ecorse, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Wilkerson & Associate P.C.

Wilkerson & Associate. P.C.
Certified Public Accountants

Enclosures

In auditing the financial statements for the year ended June 30, 2004, we encountered many of the same deficiencies as have been noted in prior years audits performed by other auditors. Some of the following comments have also been noted in prior auditors management letters related to the audits for the years ended June 30, 2003 and 2002, and in many instances made reference by those prior auditors to these problems existing and noted in Management Comment letters issued for the 1999 to 2001 fiscal year audits.

REPORTABLE CONDITIONS - MATERIAL WEAKNESSES

- (1) Bank accounts were not reconciled during the year, which necessitated our having to prepare the proof of cash in order to reconcile the accounts. In so doing, we noted numerous errors of omission and commission. Cash receipts per the general ledger did not agree with bank statement deposits. Transfers between bank accounts were not recorded or were recorded incorrectly. Disbursements were not always posted to the general ledger. Voided checks were not always recorded in the accounting system, or were recorded incorrectly. Substantial audit effort was required in recording or correcting accounting entries. Audit fees could be reduced substantially if the controller's office could do a better job of maintaining the accounting records.
- (2) Those responsible for receipting are also responsible for bank deposits, entering receipts to the computer system, and reconciling receipts with bank deposits. Strong internal controls require the segregation of key duties and responsibilities in order to reduce the risk of error or possible improprieties. At a minimum, the clerks should do the entering of the receipts and a review should be performed by the deputy treasurer. We recommend that the city treasurer's office take steps to segregate duties in relation to cash handling and bank deposit procedures.
- (3) There were weaknesses over imprest cash and/or cash handling procedures. The treasurer's office has three cash drawers and petty cash. The cash drawers were not reconciled to the imprest cash balances. Checks are not always restrictively endorsed. Cash is not compared to receipts until the bank deposit is prepared at a later time or later date. Also, the police department has only one person with access to imprest cash and a log is not consistently maintained. Imprest cash is only reconciled when it needs to be replenished. Employees do not always collect immediately on their receipts and the receipt still gets stored in the petty cash drawer. Officers drop off receipts and are not reimbursed until they are able to come to the office during regular hours. Furthermore, while the fire department does have two individuals with access to imprest cash and a log is maintained, employees do not always collect immediately on their receipts and the

receipt still gets stored in the petty cash drawer, and officers drop of receipts and are not reimbursed until they are able to come to the office during regular hours.

Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, segregation of duties, access restrictions to and accountability for resources and records, and proper documentation of transactions. Checks must be restrictively endorsed at the point and time of collection.

We recommend that the city establish an overall policy relating to cash collections and imprest cash; limit the availability of funds to only the necessary persons; report cash overages and/or shortages as a separate line-item; maintain imprest cash log supplemented with the actual receipts for funds expended; reconcile imprest cash with the general ledger on a timely basis; establish physical control over cash; establish a maximum allowable amount for individual disbursements; receipt all monies immediately and restrictively endorse all checks.

GENERAL OBSERVATIONS AND COMMENTS

- (1) Financial records are not maintained in a current manner. Basic internal control procedures, such as promptly reconciling bank accounts, are not performed. Billings for amounts due to the City are not prepared in a timely manner, if at all. The Special Revenue Budget was prepared late in the current year audit, without proper input from the individuals, responsible for budget areas, and does not appear to be properly monitored during the year. Procedures for cash receipts functions are not followed.

The City still needs to address the following critical problem areas:

- General ledger and financial analysis budgeting
 - Reporting
 - Billings
- (2) The City continues to process receipts and disbursements through the general ledger, without further review or reconciliation of the entries made. During our audit, we noted instances where items were not posted, or were posted to incorrect accounts or funds. Approximately 60 adjusting and reclassification entries had to be made in the audit to get various accounts to their proper balances. Every significant account in the general ledger required adjustment.
 - (3) The City of Ecorse did not reconcile its bank accounts, nor does it reconcile the cash in the general ledger with the cash in the bank accounts. As of February 4, 2005, the last available bank reconciliation

available for review was for the month ending December 2003. Since no June 30, 2004 bank reconciliations were available, we had to prepare a proof of cash in order to determine the proper cash balances at year end. Since all bank accounts must be reconciled monthly, and the financial records must agree with the reconciled bank accounts, we recommend the City of Ecorse reconcile all of their bank accounts timely and compare the reconciled cash amount with the financial records.

- (4) In addition, accurate aging reports for the year ended June 30, 2004 could not be produced at all. As a result, there is no reconciliation between the actual aged balances and the general ledger. Also, prepaid expenses, other receivables, and other payables were not updated which required inaccurate balances and substantial additional work to correct.
- (5) The Controller continues to prepare the budget with very little input from department heads or those responsible for a given budget area. The fiscal 2004 budgets for the Special Revenue funds were prepared late, and were not approved by Council until June 24, 2003, some three months later than required by the City's charter. The city's charter, section 21 states: "The annual appropriation budget shall be adopted by the city council not later than April 1 each year. We recommend that the city must follow the city charter regarding the budgets.
- (6) As of June 30, 2004 the accounting department was still not capable of preparing internal financial reports for use by Council, for identifying budget expense over-runs or revenue shortfalls in a timely manner, and for billing purposes where applicable. A complete and up to date accounting system is crucial for internal control purposes, yet has not been maintained by the City in recent years.
- (7) Billings for revenues due to the City are not prepared in a timely manner, and in some cases are not prepared at all. Once again, amounts due to the City from SMART for the senior citizens transportation program in the amount of approximately \$25,000 had to be calculated. Cost reimbursement requests to Wayne County under the Community Development Block Grant program are consistently submitted one to two years late. The City could lose more funds in the coming fiscal year if additional funds are not expended and invoiced in a timely manner.
- (8) Checks are not always restrictively endorsed at the point and time of collection. Someone other than the person who writes receipts or posts the accounting records does not always verify that collections received in the mail are properly receipted. Collections are not reconciled by an individual not involved in the receipting process. We recommend that the city implement procedures to strengthen controls in the receipting process.

The controller and either the city clerk or deputy clerk sign checks for disbursements. Dual signatures are required for all checking accounts (except the separate tax collection checking account). The dual signatures must be the clerk (or deputy clerk) and the treasurer (or deputy treasurer). We recommend that an official from both the clerk's office and the treasurer's office sign checks.

(9) The fixed assets inventory was missing a number of key components. The city does not maintain adequate internal controls for fixed assets and a general fixed asset account group was not maintained in accordance with generally accepted accounting principles. According to generally accepted accounting principles, the city is required to maintain an inventory of all fixed assets. It is the responsibility of the city to update the fixed assets for additions and deletions. We recommend that the city develop a property management system that includes all of the following:

- a) All assets owned by the city should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory process but will also make it more difficult for assets of the city to be removed or used by unauthorized personnel.
- b) As part of the property management system, the city should keep records on all of the assets owned by the city, which includes the following information: date of acquisition, tag number, description of property, original cost of assets and location of the asset.
- c) Reconciliations need to be made between the general ledger's capital outlays for the year and additions to fixed asset accounts in the fixed asset group of accounts.

While the city has established a dollar limit of \$2,000 to classify each purchase as a capital outlay expenditure, it must also simultaneously record the asset in the general fixed asset account (control and subsidiary records). Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to fixed assets and provide a system of protection for the assets, but will also provide an excellent record for insurance and replacement purposes as well.

(10) The city council does not receive monthly budget-to-actual reports, but rather quarterly budget-to-actual reports. We recommend that the controller's office provide the city council and officials with a monthly summary report of cash activity by fund and bank account; a monthly balance sheet by fund and detailed revenues; and a monthly report of expenditures by fund, budget-to-actual.

- (11)The city either has no formal policy and procedures manual or procedures that are completely out of date and / or cannot be located. While the city does have a limited number of policies and resolutions on hand that have been compiled from council minutes, strong internal controls recommend establishing policies to aid in the administration of the organization. Policies lay out guidelines with which new employees and new council members can readily acquaint themselves. Policies establish standard operating procedures in many areas of city business. Policies can ensure uniform and consistent answers and treatment of procedures.

Policies need to be adopted by the council at a council meeting. An annual review of policies should be performed by the staff and, as needed, updated in the form, of amendments. We recommend that the council formally establish policies and procedures. When recurring problems arise, the council should adopt a formal policy in order to give direction should the problem arise again. This will ensure the situation is handled in the proper way.

- (12)As of year end we found that contrary to public Act 51 of 1951, as amended, the State Trunkline Highway System monies for the Major and Local Street Funds are included in a common bank account and the interest is not credited to the appropriate street fund. According to MCL 247.664(2), the State Trunkline Highway System Act, "Separate accounts shall be kept by cities, villages, and county road commissions of all money returned from the Michigan Transportation Fund. This subsection shall not be construed to prevent the combining of accounts which separate bookkeeping records are kept into a single deposit account." MCL 247.663 (10) states: "Interest earned on funds returned to a city or a village for purposes provided in this section shall be credited to the appropriate street fund." As a result, the city must segregate the Major and Local Street monies from the other accounts of the city and record the interest to the respective funds.

- (13)The city did not file their audit within six months following their fiscal year-end for the past four years. The reasons for the delays are enumerated in the "Other Communications" section and throughout this letter. As indicated in the chart below, the city has been delinquent in filing the audit report for the last four years.

Fiscal Year End	Due Date of Audit	Audit Received
2000	12/31/00	July 2001
2001	12/31/01	January 2002
2002	12/31/02	March 2003
2003	12/31/03	May 2004

According to MCL 141.427(4), the Uniform Budgeting and Accounting Act, states, "The copy of the audit report and the copy of the report of auditing procedures applied required by subsection (3) shall be filed with the state treasurer within 6 months after the end of the fiscal year of a local unit for which an audit has been performed pursuant to section 5." The city's fiscal year ends each year on June 30th. Therefore, their audit report would be due on or before December 31st. We recommend that the City file their audit report with the Department of Treasury in accordance with State statute.

(14) In summary of some of the points noted above, and to provide a checklist of items that need to be addressed, we provide the following recommendations.

- A. Accounting records should be maintained in a complete up-to-date manner.
- B. Accounting records should be reviewed for completeness and for indications of mis-postings or non-postings.
- C. Bank reconciliations should be prepared in a complete and timely manner, with adjustments made when noted.
- D. Budgets must be prepared timely and with the input of those charged with budget oversight.
- E. Internal accounting reports should be generated in a timely manner for use by City management in meeting their fiduciary duties.
- F. Revenue and expense reimbursement billings should be performed in a regular and timely manner.
- G. To further organize its operations by department, the City should institute the following:
 - Prepare written job descriptions, including duties to be performed on a daily, weekly, and monthly schedule.
 - Establish position qualifications, including educational and experience requirements.
 - Conduct regular employee evaluations.

ORGANIZATION CHART

The City did not have an organization chart. There is a natural tendency to dismiss the need for an organization chart in a small city, where management deals more or less directly with each employee, and where all personnel know each other, and are generally aware of each other's area of responsibility. However, without an organization chart, there may be confusion about who is really accountable for particular areas and to whom employees are responsible. The result could be that some areas of operations do not receive adequate attention or that duplicated or contradictory actions are taken. A good organization chart can prevent such misunderstandings and also increase administrative efficiency and control in the following ways:

- Indicate whether there is adequate separation of duties.
- Inform management, new employees, and others of the City's management and operating style.
- Provide information for management to monitor and inquire into operations and procedures, assign new duties or responsibilities that may arise, or make reassignments when employee turnover, promotion, operational needs, desire for separation of duties, or other circumstances call for it.

The chart should be updated whenever there is significant employee turnover or change in operations. By developing the chart the City would have a beginning to start organizing its operations.

ECORSE HOUSING COMMISSION

The Ecorse Housing Commission is a component unit of the City. When the City is financially accountable for a legally separate entity, the City should include the financial information of that unit with its own financial statements to form the financial reporting entity. Financial accountability exists if the City appoints a voting majority of the unit's governing body, and if one of the following exists:

- The primary government can impose its will on the other entity, or
- The potential exists for the other entity to (1) provide specific benefits to, or (2) impose specific financial burdens on the City.

The State of Michigan, Department of Treasury has promulgated a "Statement on Michigan Governmental Accounting and Auditing No. 5" for the purpose of defining the governmental reporting entity for Michigan. Governmental units. This statement stipulates that Housing Commissions are component units.

For the current year and recent past years, the City has been unable to obtain financial information from its Housing Commission for inclusion in the City's financial statements.

We recommend that the City review the situation at the Ecorse Housing Commission and initiate actions necessary to obtain the financial information needed to comply with accounting principles.

GENERAL FUND DEFICIT AND BUDGET V. ACTUAL EXPENSES

The unrestricted net assets of the governmental activities of the City of Ecorse are in a deficit position of \$41,750 at June 30, 2004. Although, revenues for governmental activities did exceed expenses by \$1,479,208 for the year ended June 30, 2004.

However, the city has not complied with certain provisions of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act as amended. Specifically, certain departments incurred expenses in excess of their budgets, as indicated in the supplemental schedule of expenditures - budget to actual - included with the financial statements. Departments with variances in excess of 10% were;

Department	Budget	Actual
Legislative	\$ 48,203	\$ 96,290
Judicial	336,336	478,425
Clerk	120,200	188,104
Controller	266,822	296,693
Treasurer	126,615	151,583
Police Dept.	2,579,948	3,778,282
Fire Dept.	1,350,123	2,168,144
Public Works	235,000	700,446
Senior Citizens	42,080	59,525

BUDGETS AND GENERAL APPROPRIATIONS

The Michigan Uniform Budgeting and Accounting Act (P.A. 621 of 1978) require that local units of government follow certain procedures not only in presenting their budgets but also in monitoring them. One of these requirements is that the City amends its general appropriations as soon as it becomes apparent that a deviation has occurred. At year-end, certain expenditures in the General Fund exceeded appropriations, as discussed previously.

We recommend that greater care be taken in developing the budgets Actual to budget reports should be prepared in a regular and current manner. Accurate expenditure projections are crucial to developing an attainable budget.

DISTRIBUTION OF TAX COLLECTIONS (CL 211.43)

Michigan law requires that governmental units with total SEV of more than \$15,000,000 meet the following schedule for distribution of tax collections:

1. Within 10 business days after the 1st and 15th day of each month, account for and deliver tax collections on hand on the 1st and 15th day of each month; and
2. Within 10 business days after the last day of February, account for and deliver at least 90% of the tax collections on hand on the last day of February; and
3. A final adjustment and delivery of the total amount of tax collections on hand shall be made not later than April 1 of each year; or
4. The local unit may enter into an agreement with other tax assessing units to establish an alternative schedule for the delivery of tax collections.

Since the City has not entered into agreements providing for alternative schedules for the payment of tax collections, it must follow the schedule outlined in the preceding items 1 to 3. Failure to follow this *schedule* constitutes delinquent distribution.

We recommend that the City establish procedures to comply with Michigan law regarding the distribution of its tax collections. The preceding schedule should be adhered to in distributing tax collections received on behalf of other taxing jurisdictions.

PAYMENT OF HEALTH INSURANCE PREMIUMS

Currently, the payment of employee health insurance premiums is the responsibility of the treasurer's office. We recommend that the responsibility for health insurance premium payment be assigned to the payroll section of the controller's office. This will allow for easier verification of the employees eligible for coverage and adjustment to premium invoices for terminated or departed employees. We also recommend that sufficient records of COBRA qualified etc-employees be maintained, including COBRA repayments. Those former employees, who do not promptly remit their COBRA payments should be dropped as regulations permit.

CONTROLLERS OFFICE

The Controller position performs numerous functions for the City, which is not normally included within controllership duties. Some of those functions are purchasing, labor negotiations, and tax tribunal activities. Due to the

amount of time spent on these activities, the financial and accounting function does not receive adequate attention. A great deal of audit time is spent reconciling accounts and recording transactions. These items should be performed by the controllers' office prior to audit commencement.

We recommend that the City either reduce the duties of the Controller to financial and accounting functions or hire a qualified accountant to assist in performing those functions. While various accounting assistants were employed during the 2004 fiscal year, the state of the accounting records, showed no indication of significant improvement over prior years. This is partially due to turnover in accounting assistant positions. This lack of continuity, compounded by the absence of accounting policies and procedures, results in a lacy of consistency in the preparation and maintenance of accounting records.

In addition to the previous recommendations concerning proper accounting record maintenance, bank reconciliation processes, and reporting practices, other recommendations made previously that continue to apply to the current year follow. Each of these items requires performance on a regular basis in order to maintain complete and accurate financial information throughout the year:

- Proper computerized management reports are not being maintained for accounts payable and disbursing activities.
- Accounting functions should be organized and put into an accounting manual, which would provide staff duties and responsibilities, along with completion timelines, and examples of properly completed documents,
- Departments frequently do not provide the correct general ledger account numbers on their requisitions, nor do vendor cards reflect the proper account numbers; therefore, transactions may be charged inaccurately.

TREASURER'S OFFICE

The policy and procedures manual for the Treasurer's office, including position descriptions, with delineated job duties and responsibilities is out-dated. We recommend that such a manual be revised and maintained in a current manner. Additional recommendations are noted below:

- We noted that funds received are not consistently deposited in a timely manner and are not recorded in the general ledger in a timely manner. We recommended that procedures be established and enforced to deposit monies daily. We further recommend that deposits be recorded in subsidiary journals and the general ledger promptly. Prompt deposits reduce defalcation opportunity and will ensure that all funds are available for investment. Prompt recording of receipts will provide up to

date records, reduce the likelihood of duplicate payments being accepted, and assist in reconciliation activities.

- We noted deposits made to wrong bank accounts which resulted in cash receipts being recorded incorrectly. We recommended that communication with the Controller's department take place when needed, to determine the proper accounts to which a deposit should be made.

Only one individual in the Treasurers' office enters data into the City's accounting systems. We recommend that other office employees be trained to enter data into the systems. This will allow for more timely processing of transactions and also provide for better internal controls since more than one person will have system access, reducing the opportunity for manipulation of the data.

WATER DEPARTMENT OPERATIONS

We noted that the water department did not have a system of controls in place to ensure the accuracy of transactions processed. A number of commercial meters are estimated instead of being read. Known defective meters are not always replaced in a timely manner. Minimum charges for residential and commercial customers are over-looked, and negative usage billings are generated. Water bills are prepared and mailed with insufficient review. We recommended that estimating of bills be performed only in necessary circumstances, and not as a matter of course. We recommend that meters be replaced when found to be not working properly. We recommended that water bills be reviewed prior to mailing and that certain procedures be developed to identify and correct billing errors.

COMPUTER SYSTEM

The following list describes some of the problems related to the computerized accounting system:

No policy exists regarding the creation and distribution of management and other reports. We recommend that someone, review the types of information available from the system. They should then determine the types of reports that should be generated, the frequency in which it should be generated, and the record retention period. External reporting requirements should also be identified and quantified. Required procedures for the generation and frequency of these items should be documented.

- We noted that computer system controls were not always effectively utilized. We noted control features being over ridden, ignored or not utilized. We also noted that some control features were not part of the

computer system. We recommend that policies and procedures for the controls over computer systems be established and enforced. We again recommend that procedures be enumerated and contained within a manual for reference and enforcement of policies.

OTHER MATTERS

Union contracts and employment agreements provide for the accrual of days for vacations, sick time, and other purposes. Several departments maintain their own records of paid time off. These records are not in an auditable condition since time sheets or time cards indicating the amount of time accrued and taken for vacation, sick and compensatory time are not maintained. We recommend that time records be properly maintained, by the payroll section of the controller's office, noting the accrual and usage of compensated absences.

OTHER COMMUNICATIONS

Additional items noted below were originally communicated in a memo dated December 22, 2004. The points below summarize the delays in completing the audit work in a timely manner:

- 1) Condition of the accounting books and records:
 - a) Have not been adequately adjusted,
 - b) Accounting schedules have not been prepared,
 - c) Numerous reconciliations have not been prepared by the City's accounting department,
 - d) It does not appear that all of the details of all the monthly general ledgers are reviewed and adjusted for in a timely manner,
 - e) Virtually all of the account balances require numerous significant "non-audit" adjusting, correcting, and reclassification journal entries for the ending account balances to be reasonably stated,
 - f) All of these types of entries, schedules, and reconciliations are normally prepared by the client's accounting department,
 - g) Auditor's may usually propose some adjusting entries, but generally may not perform bookkeeping and extensive accounting procedures, and may not make extensive accounting type adjustments during an "audit",
 - h) In the auditing process, it is necessary to "audit" account balances that are already reasonably close to the final adjusted numbers. In other words, auditors actually audit and report on the final

adjusted numbers. In this case, numerous unadjusted account balances appear not to be close to the final numbers,

- i) In most instances the unadjusted balances cannot even confidently be used as the basis to properly determine the outcome of reliable levels of audit materiality for all significant areas of the audit,
 - j) Because of the condition of the account balances in the unadjusted books and records, the materiality levels keep shifting as numerous "non-audit" (i.e. bookkeeping and accounting) adjustments are needed and made,
 - k) These necessary adjustments also keep shifting the extent to which testing is necessary (i.e. usually increases the extent of testing required),
 - l) Therefore, significant amounts of bookkeeping and accounting type work is necessary to adequately estimate what the final account balances are likely to be, and also to properly determine the adequacy of dollar ranges, amounts of testing items necessary, and to help reasonably ensure that account balances are not materially misstated.
- 2) Delays in obtaining "complete" prior year (i.e. 6-30-2003) items from the prior auditor including:
- a) Supporting workpapers which tie to the beginning balances at July 1, 2003 from the prior auditor.
 - b) Inability of the prior year auditor to provide any "electronic" worksheets including:
 - i) Adjusted trial balances,
 - ii) Financial statements and notes,
 - iii) Financial statement groupings,
 - iv) Fixed asset and depreciation schedules,
 - v) Special revenue construction loan amounts, etc.,
 - c) These "electronic" (i.e. Excel and Word documents) should have been made available to the City in electronic form,
 - d) The prior year auditor indicated to us that they "destroyed" all of these documents which were in electronic form (for the audit of the year ended June 30, 2003) after they became aware were that

the City had hired a new CPA auditor for the year ended June 30, 2004, and that the City was only now a former client of theirs,

- e) New auditors are required to obtain a "comfort level" with beginning balances, and:
 - i) These beginning balances are supported by the prior auditor's work papers which detail the documented evidence underlying the prior year audited balances,
 - ii) Upon recent inquiry of the prior auditor, it appears that all of the prior year supporting workpapers may not have been (or made) available when we originally inquired of the predecessor auditor at the inception of the current year audit,
 - iii) No electronic workpapers were ever made available at any time (in particular, all financial statements and notes, fixed asset schedules, etc.),
 - iv) There are a significant number of electronic workpapers (i.e. reconciliations, schedules, etc.) that the prior auditor prepared "on behalf" of the City, but many or most of these were never made available to the City in electronic (or manual) form,
 - v) there are numerous instances in which the individual account balances are not readily traceable to their corresponding financial statement groupings which roll up into the prior year audited financial statements,
 - vi) The account balance details which make up the all of the financial statement groupings need to be manually reconciled to all of the audited beginning balances to obtain the required comfort level with the details making up the groupings of the beginning balances,
 - vii) As a result, a significant amount of additional work is needed for these related areas.
- 3) All prior year accounting and auditor adjustments for revenue and expense accounts from the prior auditor were not recorded in the City's accounting system. As a result:
 - a) The accounting system was not able to produce account balance line item revenue and expense comparisons between the prior year actual and the current year actual revenue and expenses,
 - b) Additional work is required to manually compare multiple trial balance line items from the prior year auditor manual information with the current year accounting system manual trial balances,

- c) The accounting system trial balances could not be downloaded to excel which could reduce time for this manual process of comparison and evaluation.
- 4) Excessive delays (or never receiving) information requested multiple times from the water department. (This includes print outs of various client history statements).
- 5) Inability of the accounting system software to produce a true accounts receivable aging reports as of June 30, 2004. As a result, additional work is required to reconcile out billing reports from June 30, 2004 and subsequent accounts receivable reports.
- 6) The current year (i.e. June 30, 2004) approved special revenue budget was not available with comparisons between the prior year June 30, 2003 actual and the current year June 30, 2004 budget. Therefore, additional manual work is required to compare and reconcile special revenue actual line item amounts from the prior year auditor's manual trial balances with the current year approved special revenue budget.
- 7) The treasurer's office (and accounting system) did not have available a typical cash receipts journal which presented all of the cash receipts activity in one report. As a result:
 - a) Numerous large binders containing cashier's balance reports had to be manually searched through to determine corresponding dates,
 - b) In the Treasurer's office many of the posted dates in the cashier's balance reports did not agree to the dates posted in the general ledger for various items,
 - c) There were also instances in which deposits were made into incorrect bank accounts,
 - d) There were also instances in which the deposit slip dates were more than one business day before the bank deposit (or bank statement) receipt date, with no apparent reason available,
 - e) All these matters require additional work to record, adjust, and/or reclassify the related balances.
- 8) Various other areas and items include:
 - a) Beginning balances not all properly adjusted from the prior year adjusting entries,
 - b) No ability of the accounting system to download information to excel spreadsheets,

- c) Monthly management reports and supporting schedules prepared on a monthly basis, etc.,
- d) As a result, a significant amount of additional work is required to:
 - i) Manually reconcile and compare line items, and;
 - ii) Search for multiple errors due to incorrect postings between various large multi-page documents which have not been properly adjusted, etc. or are not available in electronic form for comparison.